



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004
Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

March 19, 2020

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an audit report on Palo Alto County, Iowa.

FINANCIAL HIGHLIGHTS:

The County's revenues totaled \$18,969,078 for the year ended June 30, 2019, a 5% decrease from the prior year. Expenses for County operations for the year ended June 30, 2019 totaled \$16,267,465, a 15% increase from the prior year. The significant increase in the revenues and expenses is due primarily to an increase in capital projects paid with local funds.

AUDIT FINDINGS:

Sand reported nine findings related to the receipt and expenditure of taxpayer funds. They are found on pages 80 through 85 of this report. The findings address issues such as a lack of segregation of duties, material amounts of receivables, payables and capital assets not properly recorded in the County's financial statements and disbursements exceeding budgeted amounts. Sand provided the County with recommendations to address each of these findings.

Four of the eight findings discussed above are repeated from the prior year. The County Board of Supervisors and other elected officials have a fiduciary responsibility to provide oversight of the County's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the audit report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

#

PALO ALTO COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2019

Palo Alto County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand
Auditor of State

March 11, 2020

Officials of Palo Alto County
Emmetsburg, Iowa

Dear Board Members:

I am pleased to submit to you the financial and compliance audit report for Palo Alto County for the year ended June 30, 2019. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of Palo Alto County throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand".

Rob Sand
Auditor of State

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5-7
Management's Discussion and Analysis	8-16
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Position	A 18
Statement of Activities	B 19
Governmental Fund Financial Statements:	
Balance Sheet	C 20-21
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	D 23
Statement of Revenues, Expenditures and Changes in Fund Balances	E 24-25
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	F 26
Proprietary Fund Financial Statements:	
Statement of Net Position	G 27
Statement of Revenues, Expenses and Changes in Fund Net Position	H 28
Statement of Cash Flows	I 29
Fiduciary Fund Financial Statement:	
Statement of Fiduciary Assets and Liabilities – Agency Funds	J 31
Notes to Financial Statements	32-53
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds	56-57
Budget to GAAP Reconciliation	58
Notes to Required Supplementary Information – Budgetary Reporting	59
Schedule of the County's Proportionate Share of the Net Pension Liability	61
Schedule of County Contributions	62-63
Notes to Required Supplementary Information – Pension Liability	64
Schedule of Changes in the County's Total OPEB Liability, Related Ratios and Notes	65
Supplementary Information:	<u>Schedule</u>
Nonmajor Governmental Funds:	
Combining Balance Sheet	1 68-69
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2 70-71
Agency Funds:	
Combining Schedule of Fiduciary Assets and Liabilities	3 72-73
Combining Schedule of Changes in Fiduciary Assets and Liabilities	4 74-75
Schedule of Revenues by Source and Expenditures by Function – All Governmental Funds	5 76-77
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	78-79
Schedule of Findings	80-85
Staff	86

Palo Alto County

Officials

(Before January 2019)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Craig Merrill	Board of Supervisors	Jan 2019
Linus Solberg	Board of Supervisors	Jan 2019
Keith Wirtz	Board of Supervisors	Jan 2019
Ronald Graettinger	Board of Supervisors	Jan 2021
Roger Faulstick	Board of Supervisors	Jan 2021
Carmen Moser	County Auditor	Jan 2021
Robin Jamison	County Treasurer	Jan 2019
Susan Ruppert	County Recorder	Jan 2023
Lynn Schultes	County Sheriff	Jan 2019
Peter Hart	County Attorney	Jan 2019
Lois Naig	County Assessor	Jan 2022

(After January 2019)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ronald Graettinger	Board of Supervisors	Jan 2021
Roger Faulstick	Board of Supervisors	Jan 2021
Craig Merrill	Board of Supervisors	Jan 2023
Linus Solberg	Board of Supervisors	Jan 2023
Keith Wirtz	Board of Supervisors	Jan 2023
Carmen Moser	County Auditor	Jan 2021
Robin Jamison	County Treasurer	Jan 2023
Susan Ruppert	County Recorder	Jan 2023
Lynn Schultes	County Sheriff	Jan 2021
Peter Hart	County Attorney	Jan 2023
Lois Naig	County Assessor	Jan 2022

Palo Alto County



OFFICE OF AUDITOR OF STATE STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand
Auditor of State

Independent Auditor's Report

To the Officials of Palo Alto County:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Palo Alto County, Iowa, as of and for the year ended June 30, 2019, and the related Notes to Financial Statements, which collectively comprise the County's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Palo Alto County as of June 30, 2019 and the respective changes in its financial position and, where applicable, its cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the County's Proportionate Share of the Net Pension Liability, the Schedule of County Contributions and the Schedule of Changes in the County's Total OPEB Liability, Related Ratios and Notes on pages 8 through 16 and 56 through 65 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

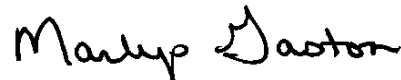
Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Palo Alto County's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2018 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 11, 2020 on our consideration of Palo Alto County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Palo Alto County's internal control over financial reporting and compliance.



Marlys K. Gaston, CPA
Deputy Auditor of State

March 11, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

Palo Alto County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2019. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2019 FINANCIAL HIGHLIGHTS

- Revenues of the County's governmental activities decreased 5%, or approximately \$996,000, from fiscal year 2018 to fiscal year 2019. Property tax increased approximately \$91,000, charges for service increased approximately \$2,060,000 and capital grants, contributions and restricted interest decreased approximately \$3,883,000.
- Palo Alto County's governmental activities expenses increased 15%, or approximately \$2,116,000, over fiscal year 2018.
- The County's net position at June 30, 2019 increased 6.8%, or approximately \$2,702,000 over the June 30, 2018 balance.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Palo Alto County as a whole and present an overall view of the County's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Palo Alto County's operations in more detail than the government-wide financial statements by providing information about the most significant funds. The remaining financial statements provide information about activities for which Palo Alto County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year, the County's proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Changes in the County's Total OPEB Liability, Related Ratios and Notes.

Supplementary Information provides detailed information about the nonmajor governmental funds and the individual Agency Funds.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information which helps answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Position presents financial information on all of the County's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in the County's net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information showing how the County's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal years.

The County's governmental activities are presented in the Statement of Net Position and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, interest on long-term debt and non-program activities. Property tax and state and federal grants finance most of these activities.

Fund Financial Statements

The County has three kinds of funds:

- 1) Governmental funds account for most of the County's basic services. These focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Mental Health, Rural Services, Secondary Roads, Drainage Districts and Tax Increment Financing, 3) the Debt Service Fund and 4) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

- 2) The proprietary fund accounts for the County's Internal Service, Employee Group Health Fund. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the County's various functions.

The required financial statements for proprietary funds include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position and a Statement of Cash Flows.

- 3) Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support the County's own programs. These fiduciary funds include Agency Funds that account for city special assessments, emergency management services and the County Assessor, to name a few.

The required financial statement for fiduciary funds is a Statement of Fiduciary Assets and Liabilities.

Reconciliations between the government-wide financial statements and the governmental fund financial statements follow the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. Palo Alto County's combined net position increased from approximately \$39,582,000 to approximately \$42,284,000 during the year. The analysis that follows focuses on the changes in the net position of governmental activities, before restatement.

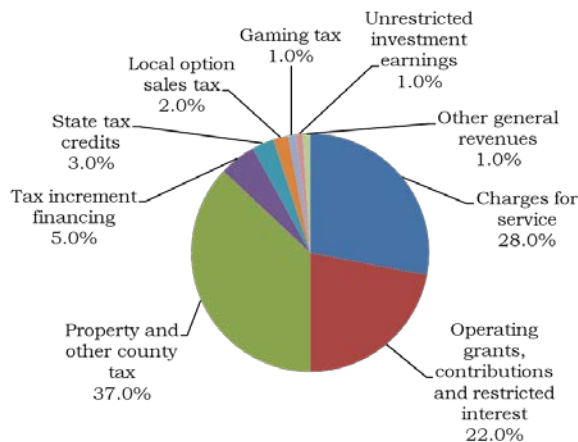
Net Position of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2019	2018
Current and other assets	\$ 27,416	29,149
Capital assets	42,181	37,179
Total assets	69,597	66,328
Deferred outflows of resources	943	977
Long-term liabilities	19,249	18,821
Other liabilities	688	862
Total liabilities	19,937	19,683
Deferred inflows of resources	8,319	8,040
Net position:		
Net investment in capital assets	33,096	25,764
Restricted	8,891	13,904
Unrestricted	297	(86)
Total net position	\$ 42,284	39,582

Net position of Palo Alto County's governmental activities increased 6.8% (approximately \$42.3 million compared to approximately \$39.6 million). The largest portion of the County's net position is net investment in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. This net position increased approximately \$7,332,000, or 28.5%, primarily due to increases in road infrastructure. Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. This net position decreased approximately \$5,013,000, or 36.1%, primarily due to road construction projects. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased from a deficit of approximately \$86,000 at June 30, 2018 to a surplus of approximately \$297,000 at June 30, 2019, an increase in unrestricted net position of 445.3%. The change in the unrestricted net position deficit is due in part to an increase in the General Fund and the Internal Service Fund balances at year end. The net pension and total OPEB liabilities also decreased from the prior year which had a positive impact on the unrestricted net position.

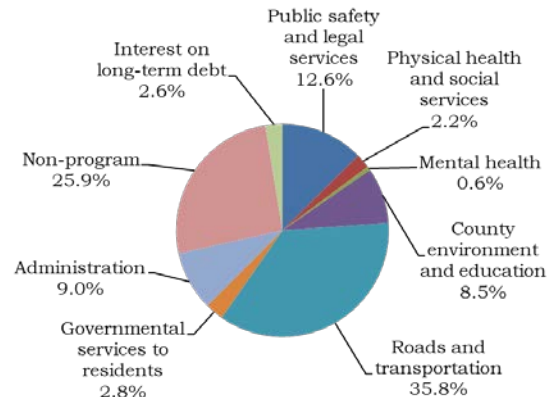
Changes in Net Position of Governmental Activities
(Expressed in Thousands)

	Year ended June 30,	
	2019	2018
Revenues:		
Program revenues:		
Charges for service	\$ 5,310	3,250
Operating grants, contributions and restricted interest	4,221	3,637
Capital grants, contributions and restricted interest	56	3,939
General revenues:		
Property and other county tax	6,978	6,887
Tax increment financing	938	861
Penalty and interest on property tax	32	30
State tax credits	539	517
Local option sales tax	404	363
Gaming tax	137	143
Unrestricted investment earnings	216	162
Other general revenues	138	176
Total revenues	18,969	19,965
Program expenses:		
Public safety and legal services	2,048	2,061
Physical health and social services	363	348
Mental health	90	193
County environment and education	1,386	1,510
Roads and transportation	5,820	6,028
Governmental services to residents	453	473
Administration	1,461	1,331
Non-program	4,215	1,797
Interest on long-term debt	431	410
Total expenses	16,267	14,151
Change in net position	2,702	5,814
Net position beginning of year	39,582	33,768
Net position end of year	\$ 42,284	39,582

Revenues by Source



Expenses by Program



Palo Alto County's governmental activities net position increased approximately \$2,702,000 during the year. Revenues for governmental activities decreased approximately \$996,000 from the prior year, with property tax revenue up over the prior year approximately \$91,000, or 1.3%. Charges for services increased 68% due to drainage assessments, operating grants, contributions and restricted interest increased 16% due to increase in road use tax and capital grants, contributions and restricted interest decreased 98% due to reduced contributions from farm to market funds from the Department of Transportation for road projects.

The County increased overall property tax rates for fiscal year 2019 by 1.66% and based on increases in total assessed valuation, property tax revenue was budgeted to increase approximately \$120,000 this year. However, property tax revenue increased only about \$91,000.

The cost of all governmental activities this year was approximately \$16.2 million compared to approximately \$14.1 million last year. However, as shown in the Statement of Activities on page 19, the amount taxpayers ultimately financed for these activities was approximately \$6.7 million because some of the cost was paid by those directly benefiting from the programs (approximately \$5,310,000) or by other governments and organizations which subsidized certain programs with grants and contributions (approximately \$4,277,000). Overall, the County's governmental program revenues, including intergovernmental aid and fees for service, decreased approximately \$1,083,000 in fiscal year 2019 from approximately \$10,826,000 to approximately \$9,587,000.

INDIVIDUAL MAJOR FUND ANALYSIS

As Palo Alto County completed the year, its governmental funds reported a combined fund balance of approximately \$11.2 million, a decrease of approximately \$4.2 million from last year's total of approximately \$15.4 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- The General Fund ending fund balance increased approximately \$420,000 over the prior year to approximately \$2,949,000. General Fund revenues increased approximately \$131,000 and expenditures increased approximately \$264,000. The increase in revenues was primarily due to an increase of intergovernmental revenues, such as FEMA and state tax credits. The increase in expenditures was primarily due to repair expenses for storm damages.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled \$90,470, a decrease of 53.1% from the prior year, and revenues decreased approximately \$1,900. The Special Revenue, Mental Health Fund balance increased approximately \$1,300 to approximately \$352,000 at year end.
- Special Revenue, Rural Services Fund expenditures increased approximately \$71,000 over the prior year, primarily for increased salary costs and the purchase of two vehicles. Revenues increased approximately \$66,000, primarily due to higher property and local options sales tax revenues. The Rural Services Fund balance decreased approximately \$96,000 to approximately \$720,000. Transfers to support the Special Revenue, Secondary Roads Fund increased approximately \$16,000.
- Special Revenue, Secondary Roads Fund expenditures increased approximately \$5,838,000 over the prior year, primarily due to an increase of road projects paid with local funds. Revenues increased approximately \$457,000 primarily due to increased road use tax revenues. Transfers from the Special Revenue, Rural Services Fund increased approximately \$16,000. The Secondary Roads Fund ending fund balance decreased approximately \$4,500,000, or 42.7%, during the year.

- Special Revenue, Drainage Districts Fund revenues increased approximately \$25,000 over the prior year due to increased drainage assessments. Expenditures increased approximately \$1,131,000, due primarily to increased drainage projects in the current year compared to fiscal year 2018. Drainage warrants issued increased approximately \$1,553,000. The Drainage Districts Fund end of year fund balance increased approximately \$222,000 over the prior year.
- The Special Revenue, Tax Increment Financing Fund balance increased approximately \$108,000 to approximately \$200,000 at June 30, 2019. The balance will be used to pay the principal and interest on general obligation urban renewal bonds issued in April 2013 and July 2014.
- Debt Service Fund revenues increased approximately \$105,000 over the prior year. The fund balance at June 30, 2019 was approximately \$757,000, or an increase of approximately \$221,000 over the prior year. The current year debt service payments for various general obligation bonds and refunding bonds was approximately \$2.5 million, an increase of \$624,000 over the prior year due to an early call on the 2014 bond series.
- Capital Projects Fund revenues and expenditures were consistent with the prior year. During fiscal year 2019, the County transferred \$579,786 of unspent bond proceeds to the debt service fund to be used for repayment of bonds issued in 2014. The end of the year fund balance decreased approximately \$575,000 during the current year to zero.

BUDGETARY HIGHLIGHTS

Over the course of the year, Palo Alto County amended its budget three times. The amendments were made on January 2, 2019, April 30, 2019, and May 28, 2019 and resulted in an increase in budgeted receipts of \$165,566 and an increase in budgeted disbursements of \$5,278,563. The increase in budgeted receipts was to receive Federal Emergency Assistance for storm damage. The majority of the increase in disbursements was related to secondary roads capital projects and debt service to call a portion of the 2014 bond series.

The County's receipts were \$478,630 more than budgeted, a variance of 3.4%. The most significant variance resulted from the County receiving more intergovernmental receipts of road use taxes and reimbursements from cities for road projects and fewer miscellaneous receipts for insurance proceeds than anticipated.

Total disbursements were \$3,304,730 less than the amended budget. Actual disbursements for the roads and transportation and capital projects functions were \$1,626,269 and \$854,423, respectively, less than budgeted. The variance in the roads and transportation function was due to less road projects and maintenance completed in the fiscal year than anticipated. The capital projects variance was due to over-estimating the amount of work that would ultimately be completed on roads. The remaining variances are a result of budgeted disbursements not being expended by June 30, 2019.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2019, Palo Alto County had approximately \$42.2 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges and intangible assets. This is a net increase (including additions and deletions) of approximately \$5 million, or 13.5%, over last year.

Capital Assets of Governmental Activities at Year End (Expressed in Thousands)		
	June 30,	
	2019	2018
Land	\$ 1,426	1,426
Buildings and improvements	1,134	1,185
Equipment and vehicles	3,384	3,127
Intangibles	271	297
Infrastructure	35,966	31,144
Total	<u>\$ 42,181</u>	<u>37,179</u>
This year's major additions included (in thousands):		
Infrastructure, including road network	\$	6,225
Vehicles and other equipment		<u>721</u>
Total		<u>\$ 6,946</u>

The County had depreciation/amortization expense of approximately \$2.2 million in fiscal year 2019 and total accumulated depreciation/amortization of approximately \$19.2 million at June 30, 2019. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2019, Palo Alto County had approximately \$16.1 million of outstanding long-term debt, which included \$9,085,000 of general obligation bonds and approximately \$7,064,000 of drainage warrants.

Outstanding Debt of Governmental Activities at Year-End (Expressed in Thousands)		
	June 30,	
	2019	2018
General obligation bonds	\$ 9,085	11,415
Drainage warrants	7,064	4,084
Total	<u>\$ 16,149</u>	<u>15,499</u>

Debt decreased as a result of making scheduled principal payments of \$2,330,000 on general obligation Series 2012, Series 2013 and Series 2014 bonds. In addition to making the scheduled principal payment for the 2014 bond series, the County called a portion of the bond. In addition, drainage warrants increased over the prior year due to additional drainage projects.

The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5% of the assessed value of all taxable property within the County's corporate limits. Palo Alto County's outstanding general obligation and other applicable debt is significantly below its constitutional debt limit of approximately \$68.3 million. Additional information about the County's long-term debt is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Palo Alto County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2020 budget, tax rates and fees for various County activities. One of those factors is the economy. Unemployment in the County now stands at 2.0% versus 2.2% a year ago. This compares with the State's unemployment rate of 2.6% and the national rate of 3.7% during June 2019.

The national Consumer Price Index (CPI) rose 1.6% from June 2018 to June 2019. This increase is less than the 2.9% increase during fiscal year 2018 reported last year.

The above factors were all part of the considerations for the fiscal year 2020 budget, which certified taxes as follows: (Amount certified includes utility replacement and property tax dollars.)

	2020 Dollars Certified	2019 Dollars Certified	Percentage Change
General Fund	\$ 3,818,798	3,843,846	-0.65%
Mental Health Fund	136,380	90,470	50.75
Rural Services Fund	2,262,240	2,182,591	3.65
Debt Service Fund	1,255,507	1,219,600	2.94
Total	<u>\$ 7,472,925</u>	<u>7,336,507</u>	<u>1.86</u>

No new services were added to the fiscal year 2020 budget. Levy rates (expressed in \$/\$1,000 of taxable valuation) to produce the above dollars for fiscal year 2020 are as follows:

	2020	2019	Percentage Change
General basic levy	\$ 3.50000	3.50000	0.00%
General supplemental levy	1.37739	1.56000	-11.71
Mental health levy	0.17419	0.11909	46.27
Rural services basic levy	3.95000	3.95000	0.00
Debt service levy	1.51000	1.51000	0.00
Total	<u>\$ 10.51158</u>	<u>10.63909</u>	<u>-1.20</u>

These factors were taken into account when adopting the budget for fiscal year 2020. Amounts appropriated in the operating budget are \$18,463,559, an increase of \$1,150,635, or 6.65%, from the final fiscal year 2019 budget. The majority of the disbursements budgeted are for debt service and roads and transportation as road improvements continue during fiscal year 2020. The Code of Iowa limits the general basic levy rate to \$3.50 per \$1,000 of taxable valuation, except for special circumstances. The general supplemental levy decreased from \$1.56 per \$1,000 of taxable valuation in fiscal year 2019 to \$1.38 per \$1,000 of taxable valuation in fiscal year 2020. Palo Alto County increased the mental health levy from \$.11909 per \$1,000 of taxable valuation to \$.17419 per \$1,000 of taxable valuation. Additionally, the rural services basic levy & debt service levy rates for fiscal year 2020 remained the same at \$1.51 & \$3.95 per \$1,000 of taxable valuation, respectively.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of Palo Alto County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Palo Alto County Auditor's Office, 1010 Broadway Street, Emmetsburg, Iowa 50536-2442.

Basic Financial Statements

Palo Alto County
Statement of Net Position
June 30, 2019

	Governmental Activities
Assets	
Cash, cash equivalents and pooled investments	\$ 10,281,566
Receivables:	
Property tax:	
Delinquent	6,062
Succeeding year	7,013,000
Succeeding year tax increment financing	920,000
Interest and penalty on property tax	22,314
Accounts	84,916
Accrued interest	183,770
Drainage assessments	7,554,486
Due from other governments	524,469
Inventories	670,905
Prepaid insurance	154,328
Capital assets, net of accumulated depreciation/amortization	42,180,710
Total assets	69,596,526
Deferred Outflows of Resources	
Pension related deferred outflows	937,047
OPEB related deferred outflows	5,827
Total deferred outflows of resources	942,874
Liabilities	
Accounts payable	275,128
Accrued interest payable	313,715
Salaries and benefits payable	55,267
Due to other governments	44,068
Long-term liabilities:	
Portion due or payable within one year:	
General obligation bonds	1,720,000
Drainage warrants	1,020,547
Compensated absences	164,666
Portion due or payable after one year:	
General obligation bonds	7,365,000
Drainage warrants	6,043,183
Compensated absences	99,667
Net pension liability	2,665,990
Total OPEB liability	169,727
Total liabilities	19,936,958
Deferred Inflows of Resources	
Unavailable property tax revenue	7,013,000
Unavailable tax increment financing revenue	920,000
Pension related deferred inflows	373,727
OPEB related deferred inflows	11,871
Total deferred inflows of resources	8,318,598
Net Position	
Net investment in capital assets	33,095,710
Restricted for:	
Supplemental levy purposes	445,836
Mental health purposes	352,365
Rural services purposes	706,690
Secondary roads purposes	5,915,411
Drainage district purposes	259,466
Debt service	944,889
Other purposes	266,842
Unrestricted	296,635
Total net position	\$ 42,283,844

See notes to financial statements.

Palo Alto County
Statement of Activities
Year ended June 30, 2019

	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
Functions/Programs:					
Governmental activities:					
Public safety and legal services	\$ 2,047,839	386,848	375	4,649	(1,655,967)
Physical health and social services	362,538	68,807	31,161	-	(262,570)
Mental health	90,470	-	-	-	(90,470)
County environment and education	1,386,513	339,971	235,816	6,892	(803,834)
Roads and transportation	5,819,894	87,319	3,953,960	44,402	(1,734,213)
Governmental services to residents	452,907	208,046	-	-	(244,861)
Administration	1,461,453	13,199	-	-	(1,448,254)
Non-program	4,214,885	4,206,302	-	-	(8,583)
Interest on long-term debt	430,966	-	-	-	(430,966)
Total	\$ 16,267,465	5,310,492	4,221,312	55,943	(6,679,718)
General Revenues:					
Property and other county tax levied for:					
General purposes					5,820,827
Debt service					1,156,758
Tax increment financing					937,777
Penalty and interest on property tax					31,802
State tax credits					539,014
Local option sales tax					403,820
Gaming tax					136,882
Unrestricted investment earnings					216,566
Miscellaneous					137,885
Total general revenues					9,381,331
Change in net position					2,701,613
Net position beginning of year					39,582,231
Net position end of year					\$ 42,283,844
See notes to financial statements.					

Palo Alto County
Balance Sheet
Governmental Funds

June 30, 2019

	Special			
	General	Mental Health	Rural Services	Secondary Roads
Assets				
Cash, cash equivalents and pooled investments	\$ 2,594,777	352,230	699,949	5,232,178
Receivables:				
Property tax:				
Delinquent	3,785	135	931	-
Succeeding year	3,595,000	128,000	2,104,000	-
Succeeding year tax increment financing	-	-	-	-
Interest and penalty on property tax	22,314	-	-	-
Accounts	47,024	-	-	37,692
Accrued interest	183,764	-	-	-
Drainage assessments	-	-	-	-
Due from other funds	-	-	-	5,935
Due from other governments	175,520	-	62,401	286,038
Inventories	-	-	-	670,905
Prepaid insurance	24,147	-	619	21,150
Total assets	\$ 6,646,331	480,365	2,867,900	6,253,898
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities:				
Accounts payable	\$ 60,277	-	7,997	107,891
Salaries and benefits payable	-	-	7,441	47,826
Due to other funds	3,323	-	2,612	-
Due to other governments	10,444	-	24,745	8,879
Total liabilities	74,044	-	42,795	164,596
Deferred inflows of resources:				
Unavailable revenues:				
Succeeding year property tax	3,595,000	128,000	2,104,000	-
Succeeding year tax increment financing	-	-	-	-
Other	28,266	134	931	10,370
Total deferred inflows of resources	3,623,266	128,134	2,104,931	10,370
Fund balances:				
Nonspendable:				
Inventories	-	-	-	670,905
Prepaid insurance	24,147	-	619	21,150
Restricted for:				
Supplemental levy purposes	455,951	-	-	-
Mental health purposes	-	352,231	-	-
Rural services purposes	-	-	719,555	-
Secondary roads purposes	-	-	-	5,386,877
Conservation land acquisition/capital improvements	158,408	-	-	-
Debt service	-	-	-	-
Other purposes	14,435	-	-	-
Assigned:				
County buildings repair	200,000	-	-	-
Unassigned	2,096,080	-	-	-
Total fund balances	2,949,021	352,231	720,174	6,078,932
Total liabilities, deferred inflows of resources and fund balances	\$ 6,646,331	480,365	2,867,900	6,253,898

See notes to financial statements.

Revenue				
Drainage Districts	Tax Increment Financing	Debt Service	Nonmajor	Total
148,663	199,765	756,951	94,683	10,079,196
-	-	1,211	-	6,062
-	-	1,186,000	-	7,013,000
-	920,000	-	-	920,000
-	-	-	-	22,314
-	-	-	200	84,916
-	-	-	6	183,770
7,554,486	-	-	-	7,554,486
-	-	-	-	5,935
-	-	-	510	524,469
-	-	-	-	670,905
-	-	-	-	45,916
7,703,149	1,119,765	1,944,162	95,399	27,110,969
79,277	-	-	1,400	256,842
-	-	-	-	55,267
-	-	-	-	5,935
-	-	-	-	44,068
79,277	-	-	1,400	362,112
-	-	1,186,000	-	7,013,000
-	920,000	-	-	920,000
7,554,486	-	1,199	-	7,595,386
7,554,486	920,000	1,187,199	-	15,528,386
-	-	-	-	670,905
-	-	-	-	45,916
-	-	-	-	455,951
-	-	-	-	352,231
-	-	-	-	719,555
-	-	-	-	5,386,877
-	-	-	-	158,408
-	199,765	756,963	-	956,728
-	-	-	93,999	108,434
-	-	-	-	200,000
69,386	-	-	-	2,165,466
69,386	199,765	756,963	93,999	11,220,471
7,703,149	1,119,765	1,944,162	95,399	27,110,969

Palo Alto County

Palo Alto County

Reconciliation of the Balance Sheet –
Governmental Funds to the Statement of Net Position

June 30, 2019

Total governmental fund balances (page 21)	\$ 11,220,471
---	---------------

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$61,356,609 and the accumulated depreciation /amortization is \$19,175,899.	42,180,710
---	------------

Other long-term assets are not available to pay current year expenditures and, therefore, are recognized as deferred inflows of resources in the governmental funds.	7,595,386
--	-----------

The Internal Service Fund is used by management to charge the costs of the partial self-funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities in the Statement of Net Position.	292,496
--	---------

Pension and OPEB related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:

Deferred outflows of resources	\$ 942,874	
Deferred inflows of resources	<u>(385,598)</u>	557,276

Long-term liabilities, including general obligation bonds payable, drainage warrants payable, compensated absences payable, net pension liability, total OPEB liability and accrued interest payable, are not due and payable in the current year and, therefore, are not reported in the governmental funds.	<u>(19,562,495)</u>
---	---------------------

Net position of governmental activities (page 18)	<u>\$ 42,283,844</u>
--	-----------------------------

See notes to financial statements.

Palo Alto County

Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds

Year ended June 30, 2019

		Special		
	General	Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other county tax	\$ 3,773,214	85,584	2,098,081	-
Tax increment financing	-	-	-	-
Local option sales tax	-	-	403,820	-
Interest and penalty on property tax	28,029	-	-	-
Intergovernmental	661,841	6,212	175,842	3,968,335
Licenses and permits	4,524	-	-	14,436
Charges for service	395,021	-	274,933	63,364
Use of money and property	213,524	-	-	25,808
Miscellaneous	220,754	-	2,655	24,467
Total revenues	5,296,907	91,796	2,955,331	4,096,410
Expenditures:				
Operating:				
Public safety and legal services	1,775,159	-	329,360	-
Physical health and social services	366,331	-	-	-
Mental health	-	90,470	-	-
County environment and education	941,616	-	725,624	-
Roads and transportation	-	-	254,265	4,129,995
Governmental services to residents	453,148	-	-	-
Administration	1,275,964	-	-	-
Non-program	-	-	81,325	-
Debt service	-	-	-	-
Capital projects	65,043	-	853	6,157,742
Total expenditures	4,877,261	90,470	1,391,427	10,287,737
Excess (deficiency) of revenues over (under) expenditures	419,646	1,326	1,563,904	(6,191,327)
Other financing sources (uses):				
Transfers in	-	-	-	1,659,736
Transfers out	-	-	(1,659,736)	-
Drainage warrants issued	-	-	-	-
Total other financing sources (uses)	-	-	(1,659,736)	1,659,736
Change in fund balances	419,646	1,326	(95,832)	(4,531,591)
Fund balances beginning of year	2,529,375	350,905	816,006	10,610,523
Fund balances end of year	\$ 2,949,021	352,231	720,174	6,078,932

See notes to financial statements.

Revenue					
Drainage Districts	Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	Total
-	-	1,156,461	-	-	7,113,340
-	937,777	-	-	-	937,777
-	-	-	-	-	403,820
-	-	-	-	-	28,029
365	87,110	85,416	-	12,378	4,997,499
-	-	-	-	-	18,960
-	-	-	-	2,508	735,826
-	-	-	5,368	70	244,770
1,353,879	-	-	-	13,562	1,615,317
1,354,244	1,024,887	1,241,877	5,368	28,518	16,095,338
-	-	-	-	9,254	2,113,773
-	-	-	-	-	366,331
-	-	-	-	-	90,470
-	-	-	-	11,472	1,678,712
-	-	-	-	-	4,384,260
-	-	-	-	1,728	454,876
-	-	-	-	-	1,275,964
3,963,738	-	-	-	-	4,045,063
149,379	-	2,517,908	-	-	2,667,287
-	-	-	750	-	6,224,388
4,113,117	-	2,517,908	750	22,454	23,301,124
(2,758,873)	1,024,887	(1,276,031)	4,618	6,064	(7,205,786)
-	-	1,496,976	-	-	3,156,712
-	(917,190)	-	(579,786)	-	(3,156,712)
2,980,404	-	-	-	-	2,980,404
2,980,404	(917,190)	1,496,976	(579,786)	-	2,980,404
221,531	107,697	220,945	(575,168)	6,064	(4,225,382)
(152,145)	92,068	536,018	575,168	87,935	15,445,853
69,386	199,765	756,963	-	93,999	11,220,471

Palo Alto County

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances –
Governmental Funds to the Statement
of Activities

Year ended June 30, 2019

Change in fund balances - Total governmental funds (page 25) \$ (4,225,382)

***Amounts reported for governmental activities in the Statement of
Activities are different because:***

Governmental funds report capital outlays as expenditures while governmental activities report depreciation/amortization expense to allocate those expenditures over the life of the assets. Capital outlay expenditures and contributed capital assets exceeded depreciation/amortization expense in the current year, as follows:

Expenditures for capital assets	\$ 7,154,393	
Capital assets contributed by the Iowa Department of Transportation	39,035	
Depreciation/amortization expense	<u>(2,192,180)</u>	5,001,248

Because some revenues will not be collected for several months after the County's year end, they are not considered available revenues and are recognized as deferred inflows of resources in the governmental funds, as follows:

Property tax	1,127	
Other	<u>2,577,902</u>	2,579,029

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Current year repayments exceeded issuances, as follows:

Issued	(2,980,404)	
Repaid	<u>2,330,254</u>	(650,150)

The current year County share of IPERS contributions are reported as expenditures in the governmental funds, but is reported as deferred outflows of resources in the Statement of Net Position.

370,370

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Compensated absences	1,051	
Pension expense	(371,991)	
OPEB expense	30,127	
Interest on long-term debt	<u>(93,930)</u>	(434,743)

The Internal Service Fund is used by management to charge the costs of the partial self-funding of the County's health insurance benefit plan to individual funds. The change in net position of the Internal Service Fund is reported with governmental activities.

61,241

Change in net position of governmental activities (page 19)

\$ 2,701,613

See notes to financial statements.

Palo Alto County
Statement of Net Position
Proprietary Fund
June 30, 2019

	<u>Internal Service - Employee Group Health</u>
Current Assets	
Cash and cash equivalents	\$ 202,370
Prepaid insurance	<u>108,412</u>
Total current assets	310,782
Current Liabilities	
Accounts payable	<u>18,286</u>
Net Position	
Unrestricted	<u><u>\$ 292,496</u></u>

See notes to financial statements.

Palo Alto County
Statement of Revenues, Expenses and
Changes in Fund Net Position
Proprietary Fund

Year ended June 30, 2019

		<u>Internal Service - Employee Group Health</u>
Operating revenues:		
Reimbursements from operating funds		\$ 1,465,248
Reimbursements from employees and others		<u>58,342</u>
Total operating revenues		1,523,590
Operating expenses:		
Medical claims	\$ 152,252	
Insurance premiums	1,294,313	
Administrative fees	<u>15,784</u>	<u>1,462,349</u>
Operating income		61,241
Net position beginning of year		<u>231,255</u>
Net position end of year		<u><u>\$ 292,496</u></u>
See notes to financial statements.		

Palo Alto County
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2019

	<u>Internal Service - Employee Group Health</u>
Cash flows from operating activities:	
Cash received from operating fund reimbursements	\$ 1,465,248
Cash received from employees and others	58,738
Cash paid to suppliers for services	<u>(1,454,958)</u>
Net cash provided by operating activities	69,028
Cash and cash equivalents beginning of year	<u>133,342</u>
Cash and cash equivalents end of year	<u>\$ 202,370</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 61,241
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in accounts receivable	396
Increase in prepaid insurance	1,388
Decrease in accounts payable	<u>6,003</u>
Net cash provided by operating activities	<u>\$ 69,028</u>

See notes to financial statements.

Palo Alto County

Palo Alto County
Statement of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2019

Assets

Cash, cash equivalents and pooled investments:

County Treasurer	\$ 1,356,034
Other County officials	47,363

Receivables:

Property tax:

Delinquent	19,258
Succeeding year	14,430,000

Accounts	10,350
----------	--------

Accrued interest	67
------------------	----

Special assessments	234,073
---------------------	---------

Due from other governments	64,228
----------------------------	--------

Total assets	<u>16,161,373</u>
---------------------	-------------------

Liabilities

Accounts payable	12,727
------------------	--------

Due to other governments	16,038,127
--------------------------	------------

Trusts payable	101,295
----------------	---------

Compensated absences	9,224
----------------------	-------

Total liabilities	<u>16,161,373</u>
--------------------------	-------------------

Net position	<u>\$ -</u>
---------------------	-------------

See notes to financial statements.

Palo Alto County

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies

Palo Alto County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance and general administrative services.

The County's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Palo Alto County has included all funds, organizations, agencies, boards, commissions and authorities. The County has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the County.

These financial statements present Palo Alto County (the primary government) and its component units. The component units discussed below are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

Blended Component Units – The following component units are entities which are legally separate from the County, but are so intertwined with the County they are, in substance, the same as the County. They are reported as part of the County and blended into the appropriate funds.

Five hundred ninety-two drainage districts have been established pursuant to Chapter 468 of the Code of Iowa for the drainage of surface waters from agricultural and other lands or the protection of such lands from overflow. Although these districts are legally separate from the County, they are controlled, managed and supervised by the Palo Alto County Board of Supervisors. The drainage districts are reported as a Special Revenue Fund. Financial information of the individual drainage districts can be obtained from the Palo Alto County Auditor's Office.

Jointly Governed Organizations – The County also participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Palo Alto County Assessor's Conference Board, Palo Alto County Emergency Management Commission and Palo Alto County Joint 911 Service Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities report information on all of the nonfiduciary activities of the County and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other nonexchange transactions.

The Statement of Net Position presents the County's nonfiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories.

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The County reports the following major governmental funds:

The General Fund is the general operating fund of the County. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Mental Health Fund is used to account for property tax and other revenues to be used to fund mental health, intellectual disabilities and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Secondary Roads Fund is used to account for the road use tax allocation from the State of Iowa, transfers from the General Fund and the Special Revenue, Rural Services Fund and other revenues to be used for secondary road construction and maintenance.

The Drainage Districts Fund is used to account for drainage assessments and drainage construction and maintenance.

The Tax Increment Financing Fund is used to account for the property tax revenue levied for the payment of urban renewal tax increment revenue bond principal and interest.

The Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the County's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

Additionally, the County reports the following funds:

Proprietary Fund – An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the County and provided to other departments or agencies on a cost reimbursement basis.

Fiduciary Funds – Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and/or other funds.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the County's policy is to pay the expenditure from restricted fund balance and then from less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's Internal Service Fund is charges to customers for sales and services. Operating expenses for the Internal Service Fund include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The County maintains its financial records on the cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Balance/Net Position

The following accounting policies are followed in preparing the financial statements:

Cash, Cash Equivalents and Pooled Investments – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at amortized cost.

For purposes of the Statement of Cash Flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax and tax increment financing receivables represent taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax and tax increment financing receivables have been recorded, the related revenue is reported as a deferred inflow of resources in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which they are levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2017 assessed property valuations; is for the tax accrual period July 1, 2018 through June 30, 2019 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2018.

Interest and Penalty on Property Tax Receivable – Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable but has not been collected.

Drainage Assessments Receivable – Drainage assessments receivable represent amounts assessed to individuals for work done on drainage districts which benefit their property. These assessments are payable by individuals in not less than 10 nor more than 20 annual installments. Each annual installment with interest on the unpaid balance is due on September 30 and is subject to the same interest and penalties as other taxes. Drainage assessments receivable represent assessments which are due and payable but have not been collected and remaining assessments which are payable but not yet due.

Special Assessments Receivable – Special assessments receivable represent the amounts due from individuals for work done which benefits their property. These assessments are payable by individuals in not more than 15 annual installments. Each annual installment with interest on the unpaid balance is due on September 30 and is subject to the same interest and penalties as other taxes. Special assessments receivable represent assessments which have been made but have not been collected.

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2019, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method. Inventories consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets – Capital assets, which include property, furniture and equipment and intangibles acquired after July 1, 1980 are reported in the governmental activities column in the government-wide Statement of Net Position. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value. Acquisition value is the price that would have been paid to acquire a capital asset with equivalent service potential. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Infrastructure	\$ 75,000
Intangibles	75,000
Land, buildings and improvements	50,000
Equipment and vehicles	10,000

Capital assets of the County are depreciated/amortized using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful lives (In Years)
Buildings and improvements	25 - 50
Infrastructure	10 - 65
Intangibles	5 - 20
Equipment and vehicles	3 - 20

Deferred Outflows of Resources – Deferred outflows of resources represent a consumption of net position applicable to a future year(s) which will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension and OPEB expense and contributions from the County after the measurement date but before the end of the County's reporting period.

Due to Other Governments – Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable – Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary fund and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2019. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund and the Special Revenue, Mental Health, Rural Services and Secondary Roads Funds.

Long-Term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund Statement of Net Position.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net pension liability attributable to the governmental activities will be paid primarily by the General Fund and the Special Revenue, Mental Health, Rural Services and Secondary Roads Funds.

Total OPEB Liability – For purposes of measuring the total OPEB liability, deferred inflows of resources and outflows of resources related to OPEB and OPEB expense, information has been determined based on Palo Alto County's actuary report. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. The total OPEB liability attributable to the governmental activities will be paid primarily by the General Fund and the Special Revenue, Mental Health, Rural Services and Secondary Roads Funds.

Deferred Inflows of Resources – Deferred inflows of resources represents an acquisition of net position applicable to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the fund financial statements consist of property tax receivable and other receivables not collected within sixty days after year end and succeeding year property tax and tax increment financing receivables that will not be recognized until the year for which they are levied.

Deferred inflows of resources in the Statement of Net Position consist of succeeding year property tax receivable and tax increment financing receivable that will not be recognized until the year for which they are levied, unrecognized items not yet charged to pension and OPEB expense and the unamortized portion of the net difference between projected and actual earnings on pension plan assets.

Fund Balance – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Board of Supervisors intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

Net Position – The net position of the Internal Service, Employee Group Health Fund is designated for anticipated future catastrophic losses of the County.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Disbursements for capital projects and debt service functions exceeded the amounts budgeted prior to the budget being amended on January 2, 2019 and May 28, 2019.

(2) Cash, Cash Equivalents and Pooled Investments

The County's deposits in banks at June 30, 2019 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The County had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2019 is as follows:

Receivable Fund	Payable Fund	Amount
Special Revenue:		
Secondary Roads	General	\$ 3,323
	Special Revenue:	
	Rural Services	<u>2,612</u>
Total		<u>\$ 5,935</u>

These balances result from the time lag between the dates interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system and payments between funds are made.

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2019 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue:	
	Tax Increment Financing	\$ 917,190
	Capital Projects	579,786
Special Revenue:	Special Revenue:	
Secondary Roads	Rural Services	1,659,736
Total		<u>\$ 3,156,712</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2019 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated/amortized:				
Land	\$ 1,425,867	-	-	1,425,867
Intangibles	210,113	-	-	210,113
Construction in progress	4,087,863	6,225,427	459,740	9,853,550
Total capital assets not being depreciated/amortized	5,723,843	6,225,427	459,740	11,489,530
Capital assets being depreciated/amortized:				
Buildings	2,130,692		-	2,130,692
Improvements other than buildings	93,399	-	-	93,399
Equipment and vehicles	8,848,761	721,290	232,985	9,337,066
Intangibles	331,255	-	-	331,255
Infrastructure, road network	36,475,709	459,740	-	36,935,449
Infrastructure, other	757,351	281,867	-	1,039,218
Total capital assets being depreciated/amortized	48,637,167	1,462,897	232,985	49,867,079
Less accumulated depreciation/amortization for:				
Buildings	977,081	48,186	-	1,025,267
Improvements other than buildings	61,651	3,504	-	65,155
Equipment and vehicles	5,721,292	429,270	197,829	5,952,733
Intangibles	244,126	26,184	-	270,310
Infrastructure, road network	9,968,876	1,641,098	-	11,609,974
Infrastructure, other	208,522	43,938	-	252,460
Total accumulated depreciation/amortization	17,181,548	2,192,180	197,829	19,175,899
Total capital assets being depreciated/amortized, net	31,455,619	(729,283)	35,156	30,691,180
Governmental activities capital assets, net	\$ 37,179,462	5,496,144	494,896	42,180,710

Depreciation/amortization expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 24,939
County environment and education	100,716
Roads and transportation	2,012,053
Governmental services to residents	4,640
Administration	49,832
Total depreciation/amortization expense - governmental activities	<u>\$ 2,192,180</u>

(6) Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments at June 30, 2019 is as follows:

Fund	Description	Amount
General	Services	\$ 10,444
Special Revenue:		
Rural Services	Services	24,745
Secondary Roads	Services	8,879
Total for governmental funds		<u>\$ 44,068</u>
Agency:		
County Offices	Collections	\$ 15,418
Agricultural Extension Education		201,192
County Assessor		499,074
Schools		8,727,820
Community Colleges		793,198
Corporations		2,856,387
Townships		153,768
City Special Assessments		235,135
Auto License and Use Tax		257,333
All other		<u>2,298,802</u>
Total for agency funds		<u>\$ 16,038,127</u>

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2019 is as follows:

	General Obligation Bonds	Drainage Warrants	Compensated Absences	Net Pension Liability	Total OPEB Liability	Total
Balance beginning of year	\$ 11,415,000	4,083,580	265,384	2,862,277	195,067	18,821,308
Increases	-	2,980,404	238,449		24,226	3,243,079
Decreases	2,330,000	254	239,500	196,287	49,566	2,815,607
Balance end of year	<u>\$ 9,085,000</u>	<u>7,063,730</u>	<u>264,333</u>	<u>2,665,990</u>	<u>169,727</u>	<u>19,248,780</u>
Due within one year	<u>\$ 1,720,000</u>	<u>1,020,547</u>	<u>164,666</u>	-	-	<u>2,905,213</u>

General Obligation Bonds

A summary of the County's June 30, 2019 general obligation bond indebtedness is as follows:

Year Ending June 30,	Refunding Series 2012 Issued December 20, 2012			
	Interest Rates	Principal	Interest	Total
2020	1.15%	\$ 900,000	45,562	945,562
2021	1.30	950,000	35,212	985,212
2022	1.45	1,025,000	22,862	1,047,862
2023	1.60	500,000	8,000	508,000
Total		\$ 3,375,000	111,636	3,486,636

Year Ending June 30,	Urban Renewal Series 2013 Issued April 23, 2013			
	Interest Rates	Principal	Interest	Total
2020	1.10%	\$ 625,000	35,313	660,313
2021	1.30	625,000	28,438	653,438
2022	1.50	625,000	20,313	645,313
2023	1.75	625,000	10,938	635,938
Total		\$ 2,500,000	95,000	2,595,000

General Obligation Urban Renewal Bonds Series 2014								
Year	Issued July 9, 2014							
Ending	Interest				Total			
June 30,	Rates	Principal	Interest	Total	Principal	Interest	Total	
2020	2.00%	\$ 195,000	75,608	270,608	1,720,000	156,483	1,876,483	
2021	1.85	170,000	71,708	241,708	1,745,000	135,358	1,880,358	
2022	2.05	120,000	68,563	188,563	1,770,000	111,738	1,881,738	
2023	2.25	665,000	66,103	731,103	1,790,000	85,041	1,875,041	
2024	2.40	1,210,000	51,140	1,261,140	1,210,000	257,776	1,467,776	
2025	2.60	850,000	22,100	872,100	850,000	22,100	872,100	
Total		\$ 3,210,000	355,222	3,565,222	9,085,000	746,394	8,981,394	

During the year ended June 30, 2008, the County issued \$10,000,000 of general obligation bonds. The proceeds of the bonds were used to construct improvements to County roads in order to assist in economic development, which creates jobs and wealth. On December 20, 2012, the County issued \$6,650,000 of general obligation refunding bonds for a crossover advance refunding of the County's outstanding general obligation bonds, series 2007B, dated December 31, 2007 and the general obligation bonds, series 2008, dated May 1, 2008. The bonds bear interest at 0.55% to 1.60% per annum and mature June 1, 2023.

On April 23, 2013, the County issued \$5,000,000 of general obligation urban renewal bonds. The bonds were issued for the purpose of paying the costs, of undertaking an urban renewal project in the Palo Alto County Industrial Park Urban Renewal Area, consisting of the construction of highway improvements to assist in economic development. The interest rates on these bonds range from .60% to 2.00% per annum.

On July 9, 2014, the County issued \$5,000,000 of general obligation urban renewal bonds. The bonds were issued for the purpose of paying the costs of undertaking an urban renewal project in the Palo Alto County Industrial Park Urban Renewal Area, consisting of the construction of highway improvements to assist in economic development. The interest rates on these bonds range from 1.50% to 2.60% per annum.

Drainage Warrants

Drainage warrants are warrants which are legally drawn on drainage district funds but are not paid for lack of funds, in accordance with Chapter 74 of the Code of Iowa. The warrants bear interest at rates in effect at the time the warrants are first presented. Warrants will be paid as funds are available.

Drainage warrants are paid from the Special Revenue, Drainage Districts Fund solely from drainage assessments against benefited properties.

(8) Pension Plan

Plan Description – IPERS membership is mandatory for employees of the County, except for those covered by another retirement system. Employees of the County are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Sheriff, deputies and protection occupation members may retire at normal retirement age, which is generally at age 55. The Sheriff, deputies and protection occupation members may retire any time after reaching age 50 with 22 or more years of covered employment.

The formula used to calculate a sheriff's, deputy's or protection occupation members' monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal costs plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2019, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the County contributed 9.44% of covered payroll, for a total rate of 15.73%. The Sheriff, deputies and the County each contributed 9.76% of covered payroll, for a total rate of 19.52%. Protection occupation members contributed 6.81% of covered payroll and the County contributed 10.21% of covered payroll, for a total rate of 17.02%.

The County's contributions to IPERS for the year ended June 30, 2019 were \$370,370.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2019, the County reported a liability of \$2,665,990 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2018, the County's proportion was 0.042128%, which was a decrease of 0.000841% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the County recognized pension expense of \$371,991. At June 30, 2019, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 24,293	80,513
Changes of assumptions	474,456	100,086
Net difference between projected and actual earnings on IPERS' investments	-	97,972
Changes in proportion and differences between County contributions and the County's proportionate share of contributions	67,928	95,156
County contributions subsequent to the measurement date	370,370	-
Total	<u>\$ 937,047</u>	<u>373,727</u>

\$370,370 reported as deferred outflows of resources related to pensions resulting from the County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,	Amount
2020	\$ 185,222
2021	77,935
2022	(53,228)
2023	(12,319)
2024	(4,660)
Total	<u>\$ 192,950</u>

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study date June 28, 2018.

Mortality rates used in the 2018 valuations were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	22.0%	6.01%
International equity	15.0	6.48
Global smart beta equity	3.0	6.23
Core plus fixed income	27.0	1.97
Public credit	3.5	3.93
Public real assets	7.0	2.91
Cash	1.0	(0.25)
Private equity	11.0	10.81
Private real assets	7.5	4.14
Private credit	3.0	3.11
Total	100.0%	

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the County will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the County's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the County's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
County's proportionate share of the net pension liability:	\$ 5,029,003	2,665,990	684,131

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to IPERS - All legally required County contributions and legally required employee contributions which had been withheld from employee wages were remitted by the County to IPERS by June 30, 2019.

(9) Other Postemployment Benefits (OPEB)

Plan Description – The County administers a single-employer benefit plan which provides medical, prescription drug and dental benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits – Individuals who are employed by Palo Alto County and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical, prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Retired participants must be age 55 or older at retirement. At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	1
Active employees	<u>78</u>
Total	<u>79</u>

Total OPEB Liability – The County's total OPEB liability of \$169,727 was measured as of June 30, 2019 and was determined by an actuarial valuation as of July 1, 2017. The total OPEB liability was rolled forward from the valuation date to the plan's fiscal year ended June 30, 2019.

Actuarial Assumptions – The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions and the entry age normal actuarial cost method, applied to all periods included in the measurement.

Rate of inflation	
(effective June 30, 2019)	3.00% per annum.
Discount rate	3.15% compounded annually,
(effective June 30, 2019)	
Healthcare cost trend rate	6.00% per annum.
(effective June 30, 2019)	

Discount Rate – The discount rate used to measure the total OPEB liability was 3.15% which reflects the index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher as of the measurement date.

Mortality rates are from the SOA RPH-2017 total dataset mortality table fully generational using Scale MP-2017. Annual retirement probabilities are based on varying rates by age and turnover probabilities mirror those used by IPERS.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study with dates corresponding to those listed above.

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Total OPEB liability beginning of year	\$ 195,067
Changes for the year:	
Service cost	18,004
Interest	6,222
Differences between expected and actual experiences	(6,760)
Benefit payments	(42,806)
Net changes	(25,340)
Total OPEB liability end of year	<u>\$ 169,727</u>

Changes of assumptions reflect a change in the discount rate from 3.75% in fiscal year 2018 to 3.15% in fiscal year 2019.

Sensitivity of the County's Total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the County, as well as what the County's total OPEB liability would be if it were calculated using a discount rate that is 1% lower (2.15%) or 1% higher (4.15%) than the current discount rate.

	1% Decrease (2.15%)	Discount Rate (3.15%)	1% Increase (4.15%)
Total OPEB liability	\$ 183,086	169,727	157,707

Sensitivity of the County's Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the total OPEB liability of the County, as well as what the County's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (5.00%) or 1% higher (7.00%) than the current healthcare cost trend rates.

	1% Decrease (5.00%)	Healthcare Cost Trend Rate (6.00%)	1% Increase (7.00%)
Total OPEB liability	\$ 150,432	169,727	192,852

OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2019, the County recognized OPEB expense of \$30,127. At June 30, 2019, the County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 6,517	(13,277)
Changes in assumptions	(690)	1,406
Total	<u>\$ 5,827</u>	<u>(11,871)</u>

The amount reported as deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year ending June 30,	Amount
2020	\$ (716)
2021	(716)
2022	(716)
2023	(716)
2024	(716)
Thereafter	(2,464)
	<u>\$ (6,044)</u>

(10) Risk Management

The County is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 778 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The County's property and casualty contributions to the Pool are recorded as expenditures from its operating funds at the time of payment to the Pool. The County's contributions to the Pool for the year ended June 30, 2019 were \$137,522.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$500,000 per claim. Claims exceeding \$500,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the County's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the County's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the County's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2019, no liability has been recorded in the County's financial statements. As of June 30, 2019, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$1,000,000 and \$100,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Employee Health Insurance Plan

The Internal Service, Employee Group Health Fund was established to account for the partial self-funding of the County's health insurance benefit plan. The plan is funded by County contributions and is administered by Eagle Ridge. Employees may choose from three options and depending on the option selected the County self-funds up to \$5,000 per individual or \$10,000 per family, with employees contributing the first \$750/\$1000/\$2500 and \$1,500/\$2,000/\$5,000, respectively depending on the plan selected. Claims in excess of the deductible are insured through the purchase of stop loss insurance.

Monthly payments of service fees and plan contributions to the Employee Group Health Fund are recorded as expenditures by the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Wellmark, Blue Cross and Blue Shield from the Employee Group Health Fund. The County's contribution for the year ended June 30, 2019 was \$1,465,248.

Amounts payable from the Employee Group Health Fund at June 30, 2019 total \$18,286, which is for incurred but not reported (IBNR) and reported but not paid claims. The amounts are based on actuarial estimates of the amounts necessary to pay prior-year and current-year claims and to establish a reserve for catastrophic losses. That reserve was \$292,496 at June 30, 2019 and is reported as a designation of the Internal Service, Employee Group Health Fund net position. A liability has been established based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Settlements have not exceeded the stop-loss coverage in any of the past three years. A reconciliation of changes in the aggregate liability for claims for the current year is as follows:

Unpaid claims beginning of year	\$ 12,283
Incurred claims (including claims incurred but not reported at June 30, 2019)	152,252
Payment on claims during the fiscal year	<u>(146,249)</u>
Unpaid claims end of year	<u>\$ 18,286</u>

(12) Transfer Station Closure Care

To comply with state regulations, the County is required to complete a closure plan detailing how the transfer station will comply with proper disposal of all solid waste and litter at the site, cleaning the transfer station building, including the rinsing of all surfaces that have come in contact with solid waste or wash water, cleaning of all solid waste transport vehicles that will remain on site, including the rinsing of all surfaces that have come in contact with solid waste, and the removal and proper management of all wash water in the wash water management system.

To comply with state regulations, the County is required to maintain a closure account as financial assurance for the closure care costs. The effect of the state requirement is to commit landfill owners to perform certain closing functions as a condition for the right to operate the transfer station in the current period.

The total closure care costs for the County as of June 30, 2019 have been estimated at \$7,788. A balance of \$7,788 has been deposited in the Special Revenue, Closure/Postclosure Fund. The balance is restricted, and the estimated closure care costs are fully funded at June 30, 2019.

(13) Palo Alto County Financial Information Included in the Northwest Iowa Care Connections Region

Northwest Iowa Care Connections Region, a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa, includes the following member counties: Clay County, Dickinson County, Lyon County, O'Brien County, Osceola County and Palo Alto County. The financial activity of Palo Alto County's Special Revenue, Mental Health Fund is included in the Northwest Iowa Care Connections Region for the year ended June 30, 2019, as follows:

Revenues:		
Property and other county tax		\$ 85,584
Intergovernmental:		
State tax credits	\$ 6,173	
Other	39	6,212
Total revenues		<u>91,796</u>
Expenditures:		
General administration:		
Distribution to regional fiscal agent		<u>90,470</u>
Excess of expenditures over revenues		1,326
Fund balance beginning of year		<u>350,905</u>
Fund balance end of year		<u>\$ 352,231</u>

(14) Tax Abatements

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

Tax Abatements of Other Entities

Property tax revenues of the County were reduced by the following amounts for the year ended June 30, 2019 under agreements entered into by the following entity:

Entity	Tax Abatement Program	Amount of Tax Abated
City of Emmetsburg	Urban renewal and economic development projects	<u>\$ 5,086</u>

(15) Prospective Accounting Change

Governmental Accounting Standards Board has issued Statement No. 84, Fiduciary Activities. This statement will be implemented for the fiscal year ending June 30, 2020. The revised requirements of this statement will enhance the consistency and comparability of fiduciary activity reporting by state and local governments by establishing specific criteria for identifying fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities.

Palo Alto County

Required Supplementary Information

Palo Alto County

Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances –
Budget and Actual (Cash Basis) – All Governmental Funds

Required Supplementary Information

Year ended June 30, 2019

	Actual	Less Funds not Required to be Budgeted	Net
Receipts:			
Property and other county tax	\$ 8,422,581	-	8,422,581
Interest and penalty on property tax	28,074	-	28,074
Intergovernmental	4,808,095	364	4,807,731
Licenses and permits	17,324	-	17,324
Charges for service	858,564	-	858,564
Use of money and property	188,737	-	188,737
Miscellaneous	1,608,205	1,353,879	254,326
Total receipts	15,931,580	1,354,243	14,577,337
Disbursements:			
Public safety and legal services	2,120,147	-	2,120,147
Physical health and social services	364,244	-	364,244
Mental health	90,470	-	90,470
County environment and education	1,678,271	-	1,678,271
Roads and transportation	4,277,581	-	4,277,581
Governmental services to residents	476,861	-	476,861
Administration	1,354,510	-	1,354,510
Non-program	4,266,282	4,266,282	-
Debt service	2,667,287	149,378	2,517,909
Capital projects	6,406,764	-	6,406,764
Total disbursements	23,702,417	4,415,660	19,286,757
Excess (deficiency) of receipts over (under) disbursements	(7,770,837)	(3,061,417)	(4,709,420)
Other financing sources, net	2,980,404	2,980,404	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(4,790,433)	(81,013)	(4,709,420)
Balance beginning of year	14,869,629	229,676	14,639,953
Balance end of year	\$ 10,079,196	148,663	9,930,533

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Net Variance
8,327,417	8,327,417	95,164
15,000	15,000	13,074
4,245,875	4,400,168	407,563
16,350	16,350	974
667,067	667,067	191,497
51,200	51,200	137,537
610,231	621,504	(367,178)
13,933,140	14,098,706	478,631
2,195,452	2,248,693	128,546
523,224	548,224	183,980
193,000	193,000	102,530
1,766,784	1,943,145	264,874
5,758,850	5,903,850	1,626,269
509,332	509,332	32,471
1,383,187	1,466,687	112,177
-	-	-
1,892,908	2,518,369	460
3,090,187	7,260,187	853,423
17,312,924	22,591,487	3,304,730
(3,379,784)	(8,492,781)	3,783,361
-	-	-
(3,379,784)	(8,492,781)	3,783,361
11,814,273	11,814,273	2,825,680
8,434,489	3,321,492	6,609,041

Palo Alto County

Budgetary Comparison Schedule – Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2019

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 15,931,580	163,758	16,095,338
Expenditures	23,702,417	(401,293)	23,301,124
Net	(7,770,837)	565,051	(7,205,786)
Other financing sources, net	2,980,404	-	2,980,404
Beginning fund balances	14,869,629	576,224	15,445,853
Ending fund balances	<u>\$ 10,079,196</u>	<u>1,141,275</u>	<u>11,220,471</u>

See accompanying independent auditor's report.

Palo Alto County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2019

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds except the blended component units, the Internal Service Fund and the Agency Funds and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon ten major classes of expenditures known as functions, not by fund. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, three budget amendments increased budgeted disbursements by \$5,278.563. The budget amendments are reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the 911 System by the Joint 911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

During the year ended June 30, 2019, disbursements did not exceed the amounts budgeted. However, disbursements for the capital projects and debt service functions exceeded the amounts budgeted prior to amending the budget on January 2, 2019 and May 28, 2019.

Palo Alto County

Palo Alto County

Schedule of the County's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Five Years*
(In Thousands)

Required Supplementary Information

	2019	2018	2017	2016	2015
County's proportion of the net pension liability	0.042128%	0.042969%	0.044052%	0.044874%	0.042869%
County's proportionate share of the net pension liability	\$ 2,666	2,862	2,772	2,217	1,700
County's covered payroll	\$ 3,856	3,652	3,598	3,615	3,558
County's proportionate share of the net pension liability as a percentage of its covered payroll	69.14%	78.37%	77.04%	61.30%	47.78%
IPERS' net position as a percentage of the total pension liability	83.62%	82.21%	81.82%	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

Palo Alto County
Schedule of County Contributions
Iowa Public Employees' Retirement System
For the Last Ten Years
(In Thousands)

Required Supplementary Information

	2019	2018	2017	2016
Statutorily required contribution	\$ 370	348	331	327
Contributions in relation to the statutorily required contribution	(370)	(348)	(331)	(327)
Contribution deficiency (excess)	\$ -	-	-	-
County's covered payroll	\$ 3,891	3,856	3,652	3,598
Contributions as a percentage of covered payroll	9.52%	9.02%	9.06%	9.09%

See accompanying independent auditor's report.

Palo Alto County

Notes to Required Supplementary Information – Pension Liability

Year ended June 30, 2019

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study date June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

Palo Alto County

Schedule of Changes in the County's
Total OPEB Liability, Related Ratios and Notes

For the Last Two Years
Required Supplementary Information

	2019	2018
Service cost	\$ 18,004	16,840
Interest cost	6,222	8,400
Difference between expected and actual experiences	(13,277)	(12,177)
Changes in assumption	6,517	-
Benefit payments	(42,806)	(52,630)
Net change in total OPEB liability	(25,340)	(39,567)
Total OPEB liability beginning of year	195,067	234,634
Total OPEB liability end of year	\$ 169,727	195,067
Covered-employee payroll	\$ 4,016,510	3,607,750.0
Total OPEB liability as a percentage of covered-employee payroll	4.2%	5.4%

Notes to Schedule of Changes in the County's Total OPEB Liability and Related Ratios

Changes in benefit terms:

There were no significant changes in benefit terms.

Changes in assumptions:

Changes in assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period.

Year ended June 30, 2019	3.15%
Year ended June 30, 2018	3.72%
Year ended June 30, 2017	4.50%

Palo Alto County

Supplementary Information

Palo Alto County
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2019

	Special			
	Sheriff Investigation	Sheriff Forfeit	Resource Enhancement and Protection	County Recorder's Records Management
Assets				
Cash, cash equivalents and pooled investments	\$ 3	2,030	39,370	8,581
Accounts Receivable	-	-	-	200
Accrued interest	-	-	5	1
Due from other governments	-	-	-	-
Total assets	\$ 3	2,030	39,375	8,782
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable	\$ -	-	-	1,400
Fund balances:				
Restricted for other purposes	3	2,030	39,375	7,382
Total liabilities and fund balances	\$ 3	2,030	39,375	8,782

See accompanying independent auditor's report.

Revenue			
Sheriff Reserve	Closure/ Postclosure	County Attorney Collections	Total
6,807	7,788	30,104	94,683
-	-	-	200
-	-	-	6
-	-	510	510
6,807	7,788	30,614	95,399
-	-	-	1,400
6,807	7,788	30,614	93,999
6,807	7,788	30,614	95,399

Palo Alto County

Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2019

	Special			
	Sheriff	Sheriff	Resource	County
	Investigation	Forfeit	Enhancement	Recorder's
			and Protection	Records
				Management
Revenues:				
Intergovernmental	\$ -	-	7,981	-
Charges for service	-	-	-	2,508
Use of money and property	-	-	57	13
Miscellaneous	-	8,913	-	-
Total revenues	-	8,913	8,038	2,521
Expenditures:				
Operating:				
Public safety and legal services	1,146	6,883	-	-
County environment and education	-	-	11,472	-
Government services to residents	-	-	-	1,728
Total expenditures	1,146	6,883	11,472	1,728
Change in fund balances	(1,146)	2,030	(3,434)	793
Fund balances beginning of year	1,149	-	42,809	6,589
Fund balances end of year	\$ 3	2,030	39,375	7,382

See accompanying independent auditor's report.

Revenue				
Sheriff Reserve	Closure/ Postclosure	County Attorney Collections	Total	
375	-	4,022	12,378	
-	-	-	2,508	
-	-	-	70	
4,649	-	-	13,562	
5,024	-	4,022	28,518	
1,225	-	-	9,254	
-	-	-	11,472	
-	-	-	1,728	
1,225	-	-	22,454	
3,799	-	4,022	6,064	
3,008	7,788	26,592	87,935	
6,807	7,788	30,614	93,999	

Palo Alto County
Combining Schedule of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2019

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets				
Cash, cash equivalents and pooled investments:				
County Treasurer	\$ -	982	237,069	45,722
Other County officials	47,363	-	-	-
Receivables:				
Property tax:				
Delinquent	-	210	283	9,098
Succeeding year	-	200,000	268,000	8,673,000
Accounts	1,156	-	-	-
Accrued interest	-	-	-	-
Special assessments	-	-	-	-
Due from other governments	-	-	-	-
Total assets	\$ 48,519	201,192	505,352	8,727,820
Liabilities				
Liabilities:				
Accounts payable	\$ 11,888	-	251	-
Due to other governments	15,418	201,192	499,074	8,727,820
Trusts payable	21,213	-	-	-
Compensated absences	-	-	6,027	-
Total liabilities	\$ 48,519	201,192	505,352	8,727,820

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	City Special Assessments	Auto License and Use Tax	Other	Total
4,373	23,271	729	1,062	257,333	785,493	1,356,034
-	-	-	-	-	-	47,363
825	7,116	39	-	-	1,687	19,258
788,000	2,826,000	153,000	-	-	1,522,000	14,430,000
-	-	-	-	-	9,194	10,350
-	-	-	-	-	67	67
-	-	-	234,073	-	-	234,073
-	-	-	-	-	64,228	64,228
793,198	2,856,387	153,768	235,135	257,333	2,382,669	16,161,373
-	-	-	-	-	588	12,727
793,198	2,856,387	153,768	235,135	257,333	2,298,802	16,038,127
-	-	-	-	-	80,082	101,295
-	-	-	-	-	3,197	9,224
793,198	2,856,387	153,768	235,135	257,333	2,382,669	16,161,373

Palo Alto County

Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2019

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets and Liabilities				
Balances beginning of year	\$ 41,094	180,031	487,287	8,411,108
Additions:				
Property and other county tax	-	200,873	269,780	8,733,168
911 surcharge	-	-	-	-
State tax credits	-	12,965	19,448	614,713
Drivers license fees	-	-	-	-
Office fees and collections	381,957	-	-	-
Auto licenses, use tax and postage	-	-	-	-
Assessments	-	-	-	-
Trusts	142,519	-	-	-
Miscellaneous	-	-	150	-
Total additions	524,476	213,838	289,378	9,347,881
Deductions:				
Agency remittances:				
To other funds	208,375	-	-	-
To other governments	169,881	192,677	271,313	9,031,169
Trusts paid out	138,795	-	-	-
Total deductions	517,051	192,677	271,313	9,031,169
Balances end of year	\$ 48,519	201,192	505,352	8,727,820

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	City Special Assessments	Auto License and Use Tax	Other	Total
814,185	2,837,300	147,530	269,261	259,360	2,217,134	15,664,290
793,032	2,632,342	156,420	-	-	1,533,920	14,319,535
-	-	-	-	-	15,462	15,462
58,834	365,189	7,737	-	-	107,503	1,186,389
-	-	-	-	48,475	-	48,475
-	-	-	-	-	-	381,957
-	-	-	-	3,417,807	-	3,417,807
-	-	-	20,033	-	22,938	42,971
-	-	-	-	-	-	142,519
-	1,384	-	-	-	493,565	495,099
851,866	2,998,915	164,157	20,033	3,466,282	2,173,388	20,050,214
-	-	-	-	121,367	-	329,742
872,853	2,979,828	157,919	54,159	3,346,942	2,007,853	19,084,594
-	-	-	-	-	-	138,795
872,853	2,979,828	157,919	54,159	3,468,309	2,007,853	19,553,131
793,198	2,856,387	153,768	235,135	257,333	2,382,669	16,161,373

Palo Alto County

Schedule of Revenues By Source and Expenditures By Function –
All Governmental Funds

For the Last Ten Years

	2019	2018	2017	2016
Revenues:				
Property and other county tax	\$ 7,113,340	7,029,363	6,368,829	6,491,723
Tax increment financing	937,777	861,311	864,015	718,106
Local option sales tax	403,820	363,448	352,235	432,521
Interest and penalty on property tax	28,029	27,092	24,219	27,218
Intergovernmental	4,997,499	4,411,684	4,933,819	4,816,292
Licenses and permits	18,960	18,848	19,475	22,379
Charges for service	735,826	713,771	695,083	655,020
Use of money and property	244,770	183,565	143,044	110,037
Miscellaneous	1,615,317	1,585,853	1,470,104	1,670,155
Total	<u>\$ 16,095,338</u>	<u>15,194,935</u>	<u>14,870,823</u>	<u>14,943,451</u>
Expenditures:				
Operating:				
Public safety and legal services	\$ 2,113,773	2,067,658	1,862,649	1,765,900
Physical health and social services	366,331	356,980	347,152	333,962
Mental health	90,470	193,000	193,262	442,343
County environment and education	1,678,712	1,519,636	1,423,697	1,493,651
Roads and transportation	4,384,260	4,278,394	3,811,770	3,593,743
Governmental services to residents	454,876	483,003	432,689	431,905
Administration	1,275,964	1,181,676	1,111,525	1,170,815
Non-program	4,045,063	1,703,084	1,647,478	623,771
Debt service	2,667,287	3,250,017	2,561,232	3,274,586
Capital projects	6,224,388	445,463	2,930,884	1,861,379
Total	<u>\$ 23,301,124</u>	<u>15,478,911</u>	<u>16,322,338</u>	<u>14,992,055</u>

See accompanying independent auditor's report.

2015	2014	2013	2012	2011	2010
6,107,119	6,145,690	6,167,506	6,176,465	5,736,591	5,209,532
327,473	310,002	300,004	302,974	300,000	393,677
465,145	433,932	361,974	363,359	328,462	333,579
26,172	25,497	23,143	32,834	30,237	23,945
4,466,781	3,912,315	5,753,093	4,236,506	4,151,228	4,254,845
15,448	14,701	14,578	11,544	7,411	10,067
613,017	675,118	747,829	649,422	616,306	554,575
109,598	105,959	76,332	132,469	202,748	294,229
2,508,166	1,198,791	746,189	1,285,823	761,672	406,075
14,638,919	12,822,005	14,190,648	13,191,396	12,134,655	11,480,524
1,758,102	1,715,696	1,677,580	1,615,221	1,582,458	1,611,100
315,938	345,250	325,218	330,422	298,385	308,296
518,741	441,820	498,060	1,287,366	1,187,643	1,130,674
1,280,216	1,340,012	1,367,347	1,441,657	1,531,174	1,331,955
4,076,273	4,351,228	3,923,103	3,759,031	3,834,536	4,008,318
402,691	424,021	404,747	388,793	362,160	363,348
1,179,145	1,127,496	1,156,543	1,139,244	1,102,432	1,171,615
1,796,929	924,130	5,730,306	1,132,729	1,004,990	740,436
10,040,124	2,768,798	1,824,566	2,213,254	1,676,728	1,543,430
5,260,226	1,751,867	2,608,192	3,588,863	3,710,629	1,574,053
26,628,385	15,190,318	19,515,662	16,896,580	16,291,135	13,783,225



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand
Auditor of State

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Officials of Palo Alto County:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Palo Alto County, Iowa, as of and for the year ended June 30, 2019, and the related Notes to Financial Statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 11, 2020

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Palo Alto County's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Palo Alto County's internal control. Accordingly, we do not express an opinion on the effectiveness of Palo Alto County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the County's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) through (C) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (D) and (E) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Palo Alto County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2019 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

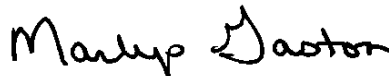
Palo Alto County's Responses to the Findings

Palo Alto County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Palo Alto County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Palo Alto County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


Marlys K. Gaston, CPA
Deputy Auditor of State

March 11, 2020

Palo Alto County
Schedule of Findings
Year ended June 30, 2019

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the County's financial statements.

Condition – Generally, one or two individuals in the offices identified may have control over the following areas for which no compensating controls exist:

	Applicable Offices
(1) Receipts – opening and listing mail receipts, collecting, depositing, posting and daily reconciling.	County Sheriff and County Recorder
(2) Bank reconciliations are not prepared by someone who doesn't sign checks, handle or record cash.	County Sheriff
(3) The person who signs checks is not independent of the individual who records cash receipts and prepares checks.	County Recorder
(4) All incoming mail is not opened by an employee who is not authorized to make entries to the accounting records.	County Recorder

Cause – The County offices noted above have a limited number of employees and procedures have not been designed to adequately segregate duties to provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect each County Office's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, each official should review the control procedures of their office to obtain the maximum internal control possible under the circumstances. Current personnel, including elected officials and personnel from other County Offices, should be used to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons and should be documented by the signature or initials of the reviewer and the date of the review.

Palo Alto County

Schedule of Findings

Year ended June 30, 2019

Responses –

County Recorder – We will continue to review the control procedures of our office and look for ways to segregate duties to the extent possible with the small number of staff in our office.

County Sheriff – The collecting, posting, depositing and daily reconciling is performed by the Office Manager. We will implement procedures to include an independent review of the bank reconciliation, evidenced by initials of reviewer and date of review. We will continue to work to segregate duties the best we can.

Conclusions – Responses accepted.

(B) Financial Reporting

Criteria – A deficiency in internal control over financial reporting exists when the design of operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the County's financial statements.

Condition – Material amounts of receivables, payables and capital assets were not properly recorded in the County's financial statements. Adjustments were subsequently made by the County to properly include these amounts in the financial statements.

Cause – County policies do not require, and procedures have not been established to require independent review of year-end cut-off transactions and capital assets to ensure the County's financial statements are accurate and reliable.

Effect – Lack of policies and procedures resulted in County employees not detecting the errors in the normal course of performing their assigned functions. As a result, materials adjustments to the County's financial statements were necessary.

Recommendation – The County should implement procedures to ensure all receivables, payables and capital assets are properly recorded and included in the County's financial statements.

Response – The County will implement policies and procedures to verify all receivables, payables and capital assets are properly recorded.

Conclusion – Response accepted.

Palo Alto County
Schedule of Findings
Year ended June 30, 2019

(C) Overpayment

Criteria – The County enters into contracts with construction companies for road repair and maintenance projects. As work is completed by the construction companies, the construction companies submit pay requests to the County for payment.

Condition – The construction company identified an over payment of \$156,079 and subsequently reimbursed the County.

Cause – County policies do not require, and procedures have not been established to review pay requests to ensure proper payment of construction projects.

Recommendation – The County should implement procedures and policies to ensure pay requests are reviewed for proper payment.

Response – The County's pay voucher excel program was expended and formatting was proofed. We plan on electronically proofing vouchers as well as validating payments with contractors prior to payment in future local construction and maintenance contracts. This will ensure future payments are correct.

Conclusion – Response accepted.

(D) County Sheriff

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all funds by maintaining appropriate accounting records and reconciling bank and book balances.

Condition – The June 30, 2019 book balance did not reconcile to the June 30, 2019 bank balance. The books were higher than the bank by \$4,262.

Cause – Procedures have not been designed and implemented to ensure all accounts are reconciled and the amounts recorded in the books and bank accounts are complete and accurate to ensure proper accounting for all funds and to ensure receipts are deposited timely.

Effect – A lack of bank to book reconciliations and untimely deposits can result in unrecorded transactions, undetected errors and opportunity for misappropriation.

Recommendation – The Sheriff's Office book balance should be reconciled to the bank balance at the end of each month and variances should be investigated and resolved in a timely manner. Also, all collections should be deposited timely.

Response – Our software program system detected a variance that was due to the conversion of data when we first started our new system. Our office worked extensively with the company and these matters are resolved. The monthly reconciliation reports and audit reports now show as balanced with a zero variance.

Palo Alto County
Schedule of Findings
Year ended June 30, 2019

We make every attempt to make a weekly deposit on Fridays or the last working day of the week. However, due to the lack of extra office personal and multiple duties that the Office Manager handles, it is not always possible to do so. All funds are kept in a locked drawer that is not accessible by anyone other than the Sheriff and the Office Manager.

We have had our software company design a new report that mimics the report the Auditor has asked us to prepare. It has the bank to book reconciliations figures for the Auditor to be able to review. We have, for a few years, been unable to reconcile our books to have a zero variance. We have discussed this situation with the State Auditor every time they have been here, and it has not been able to be figured out why. We have discussed with our software company this issue and we are implementing a new way of keeping track of our commissary (inmate) accounts within our software program that we anticipate will take care of this problem.

Conclusion – Response accepted.

(E) Agricultural Extension

Criteria – An effective internal control system provides for internal controls related to ensuring independent review of bank reconciliations is performed in order to identify any errors and misappropriation.

Condition – During the fiscal year, 2 of 12 monthly book to bank reconciliations did not show evidence of timely independent review.

Cause – Procedures have not been designed and implemented to ensure bank reconciliations show evidence of timely independent review.

Effect – Lack of bank reconciliation review can result in undetected errors, and opportunity for misappropriation.

Recommendation – An independent review of the reconciliation should be performed for every month and the review should be documented by the signature or initials of the reviewer and the date of review.

Response – Our office will pay closer attention to be sure that each reconciliation is reviewed and initialed by an independent person.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Palo Alto County
Schedule of Findings
Year ended June 30, 2019

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements at June 30, 2019 did not exceed the amounts budgeted. However, disbursements for the capital projects and debt service functions exceeded the amounts budgeted prior to the budget amended on January 2, 2019 and May 28, 2019.

Recommendation – The budget should have been amended in accordance with Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The County will monitor disbursements and make amendments before exceeding the budgeted amounts.

Conclusion – Response accepted.

- (2) Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- (4) Business Transactions – Business transactions between the County and County officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Thomas Schultes, son of Sheriff (hired by the Board of Supervisors)	Transport and patrol	\$ 2,750
Nick Jackson, son of Deputy Sheriff	Lawn services	1,570
Rouse Tire & Repair, owner is spouse of County Employee	Miscellaneous repairs	1,124
Terry Neary, spouse of Zoning and Sanitation employee, self-employed. Retired in May 2019.	Data entry	816

In accordance with Chapter 331.342 of the Code of Iowa, the transactions with Rouse Tire & Repair and Terry Neary do not appear to represent conflicts of interest since the total transactions with each individual were less than \$1,500 during the fiscal year.

The transactions with Thomas Schultes and Nick Jackson may represent a conflict of interest as defined in Chapter 331.342(2)(j) of the Code of Iowa since the total transactions exceeded \$1,500 and were not competitively bid.

Recommendation – The County should consult legal counsel to determine the disposition of this matter.

Palo Alto County
Schedule of Findings
Year ended June 30, 2019

Response – The County will review with legal counsel. The County already requires two signatures on the Rouse Tire & Repair bills.

Conclusion – Response accepted.

- (5) Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of surety bond coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Board Minutes – No transactions were found which we believe should have been approved in the Board minutes but were not. One instance was noted, January 8, 2019, in which the minutes were not signed by both the Board Chair and the County Auditor.

Recommendation – The County should ensure all Board minutes are signed by both the Board Chair and the County Auditor.

Response – The County will ensure that all Board minutes are signed by both the Chair and the Auditor.

Conclusion – Response accepted.

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted.
- (8) Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- (9) County Extension Office – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an Extension Council separate and distinct from County operations and, consequently, is not included in Exhibits A or B.

Disbursements during the year ended June 30, 2019 for the County Extension Office did not exceed the amount budgeted.

- (10) Annual Urban Renewal Report – The Annual Urban Renewal Report was properly approved and certified to the Iowa Department of Management on or before December 1. However, the TIF debt outstanding reported on the Levy Authority Summary was not fully supported by the County's records.

Recommendation – The County should ensure the amounts reported on the Levy Authority Summary agree with and are supported by the County's records.

Response – The principal amount was erroneously entered on the annual urban renewal report. The County will ensure that the accurate amounts are entered going forward.

Conclusion – Response accepted.

Palo Alto County

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Deputy
Janet K. Mortvedt, CPA, Manager
Micaela A. Tintjer, CPA, Staff Auditor
Marcus B. Johnson, Senior Auditor
Brandon G. Sommers, Assistant Auditor
Vivian J. Hustad, Assistant Auditor
Silvester K. Rutto, Assistant Auditor